

Housing and Municipal Reform Support Center

Business Plan

Prepared for

United States Agency for International Development

Prepared by

Phillip Davies

PADCO, Inc.

Contract No. PCE-1008-I-6008-00, DO 6

January 1997



Housing and Municipal Reform Support Center

Business Plan

Prepared for
United States Agency for International Development

Prepared by
Phillip Davies
PADCO, Inc.

Contract No. PCE-1008-I-6008-00, DO 6
January 1997

Preface

This Business Plan has been prepared for the United States Agency for International Development (USAID) under a contract with PADCO as part of the effort to create a local nongovernmental organization (NGO) in Ukraine that will assume essential program functions related to the institutionalization of housing sector reforms. The provisional name of the NGO is the National Housing and Real Estate Property Institute.

As required by the scope of work, the Business Plan deliverable consists of four components: a Strategic Plan, an Operational Plan, a Financial Plan, and a Contingency Plan.

In the spring of 1996, Barbara Lipman of the United States Agency for International Development/Kiev convened a group of foreign nationals from the PADCO offices in Kiev, Kharkiv, Odessa, and Lviv and created the ABrain Trust.[®] Per Ms. Lipman's request, PADCO has provided guidance and assistance to the Brain Trust in the planning and development of the Institute. However, this report was created by and reflects the views of the Brain Trust and not necessarily those of PADCO. Other than this preface, which was included by PADCO to clarify a few statements, there has been no revision to the document as prepared by the Brain Trust.

Clarification is required regarding the statement throughout this report that the NGO will be liable to pay taxes to authorities equivalent to 80-90 percent of the employees' salaries. The NGO will be liable to pay approximately 52 percent of employee salaries in payroll taxes and will be responsible for deducting 12-30 percent of staff salaries for income tax. Employer-financed payroll-related tax rates and personal income taxes are currently under negotiation in the Supreme Rada of Ukraine. The employees have based the 80-90 percent figure on their assumption that USAID will increase staff salaries to reflect the personal income taxes that will be withheld from salary payments. In addition, the financial reports indicate a planned across-the-board salary increase of 14 percent except for the Program Manager position, which was increased by 20 percent.

Currently, discussions are being held regarding the suggestion by the Brain Trust that the Institute send its four office directors to attend a two-week real estate appraisal course.

In the spring of 1996, Barbara Lipman, of USAID, assembled a group of PADCO/Ukraine's senior staff members who will form the core of the new organization. The group met quarterly from then until November 1996. For one week in December 1996 and two weeks in January 1997, the consultant visited Ukraine to meet with this group and to assist them in preparing this plan. Despite the challenges they faced, the consultant was impressed with their commitment and eagerness to embark on forming

an NGO, which is a new feature in Ukraine's institutional landscape.

The consultant wishes to acknowledge those who contributed their time, energy, and ideas to this document. Vladimir Shimkin wrote the first draft of the Contingency Plan, Sergei Reshetov worked on the Operational Plan, Sergei Zakharchenko prepared the budgets in the Financial Plan, and Irena Troughkevich helped with the Strategic Plan. Anatoly Kopets has been an active participant in all phases of the planning. Alexander Boukhalov helped pursue answers to important legal questions and made Kiev office staff available for administrative support. Barbara Lipman provided valuable feedback, insight, and encouragement that helped the planning process maintain momentum. All of the persons above are to be thanked for their hard work and dedication in completing this phase of NGO planning.

Philip Davies
February 6, 1997

National Housing and Real Estate Property Institute

Strategic Plan

January 1997

Table of Contents

- 1 Organizational Background1**
- 2 Mission1**
- 3 Target Clients and Services2**
- 4 Analysis of Strengths, Weaknesses, Opportunities, and Threats3**
- 5 Meaningful Environment5**
- 6 Obstacles and Proposed Action6**

1 Organizational Background

The United States Agency for International Development (USAID), fulfilling the provisions of a Memorandum of Cooperation signed on November 10, 1992 between the Government of Ukraine and USAID, concluded a contract with PADCO to provide technical assistance in the area of privatization and housing reform. Government of Ukraine counterparts included the State Committee for Construction and Architecture, the Ministry of Finance, the State Committee for Housing and Municipal Economy, and the State Committee for Land Resources.

PADCO, Inc. has worked throughout Ukraine with administrations to implement housing policy reforms, to establish private management and maintenance (PMM) companies, and to create condominium associations. It presently has offices in Kiev, Kharkiv, Odessa, and Lviv.

PADCO's work in Ukraine can be divided into three phases.

C 1993-95 (pilot PMM and condominium programs in Kharkiv and Odessa

During this period, two owners= associations were registered in Kharkiv and 21,100 apartments (1,700 in Odessa; 7,740 in Kharkiv; 11,660 in Kiev) came under private maintenance agreements after competitive bidding.

C 1995-96 (roll-out and expansion of PMM and condominium programs

During this period, numerous seminars for city officials and residents were organized; training and informational materials were produced and widely distributed to prospective clients; and training was carried out for apartment owners and prospective private maintenance contractors.

C 1996-97 (AUkrainization@ of program

This is the period during which condominium and PMM programs will be transferred from PADCO to a local organization comprised of Ukrainian professionals and support staff hired and trained during the first two phases. A local NGO is formed and registered to carry out a diversified range of activities. The proposed name of the new NGO is the National Housing and Real Estate Property Institute.

By the end of 1996, PADCO offices accounted for the formation of 137 co-owners= associations and the organization of 58,052 apartments under private maintenance agreements.

2 Mission

Mission Statement

The mission of the National Housing and Real Estate Property Institute is to improve the standard of housing in urban communities throughout the country. It is committed to working closely with local and national governments, enterprises, and residents to advance the process of privatization and to identify cost-effective reform alternatives in

the areas of housing, real estate, and communal economy. It also offers post-privatization support for apartment owners, private maintenance firms, utility companies, state-owned industries, and other real estate-related enterprises. It carries out its mission through planning and appraisal assistance, information dissemination, management consulting, legal advice, the provision of training, and metering.

Values

The values that guide the Institute in its work are as follows:

- C improving the quality of housing and communal service in Ukraine;
- C transferring housing stock and utilities infrastructure to private ownership;
- C changing the attitude of residents from passive to involved consumers;
- C ensuring maintenance and service contracts are awarded on competitive basis;
- C recovering costs for services rendered;
- C working closely with government officials at all levels; and
- C flexibility to take advantage of new business opportunities and expand the client base.

3 Target Clients and Services

Clients	Their needs
Residents who own or rent apartments of all ages and income categories	Improved living conditions, better maintenance for a reasonable price, specialized training in registering and organizing co-owners= associations
Government: top national officials, local: oblast and municipal officials, housing and communal departments in municipalities	Transfer financial and operational responsibility for housing maintenance, reduce complaints from unhappy residents
Private maintenance and construction companies that provide maintenance and communal services to residents	Training and technical assistance to generate more business; marketing to build clientele base
Existing municipal communal enterprises	Training and technical assistance to privatize water, sewage, and heating services; improved metering
Co-owners= associations	Training and technical assistance in registration and operations; utility costs tracking
State-owned housing stock	Training and technical assistance in registration and operations
Foreign businesses and investors	Expert advice on business opportunities in Ukraine; professional network and contacts

Services

In an effort to build long-term sustainability, the Institute plans to make a concerted effort to diversify its services as well as the range of its clients. Present staff have demonstrated skills and have developed a reputation in the field of PMM and condominiums. Their capabilities will be further strengthened through in-service

training in targeted subjects, such as real estate appraisal and communal infrastructure privatization. The Institute's service strategy centers on recovering costs to cover an increasing share of expenses now covered by funding from USAID.

The following are services they intend to provide:

- C technical assistance and consulting services in the formation, registration, and operation of co-owners' associations;
- C training in business planning for private maintenance firms;
- C organizing competitive bids for private maintenance companies;
- C training, materials distribution, and public information through seminars and workshops;
- C legislative review and consultation with the State Committee on Housing and Municipal Services on matters related to housing and real estate reform and the privatization of communal services and infrastructure;
- C appraisal of real estate, land, and property;
- C title registration; and
- C consulting services to foreign companies and their financing agents in the market with respect to privatizing housing, communal service, and infrastructure projects, e.g., water, sewerage, heating; these consulting services could be in how to approach and/or assist local governments in setting up the legal framework that will allow foreign companies to enter the market or in setting up the actual mechanisms for privatizing these services.

4 Analysis of Strengths, Weaknesses, Opportunities, and Threats

To be able to respond effectively to changes in their environment, the Institute has assessed its internal and external environments. This information has helped the Institute balance its capacities and intentions with perceived opportunities and threats. The results of their analysis follow in two charts that summarize strengths and weaknesses and opportunities and threats.

Strengths and Weaknesses

Strengths	Weaknesses
Human Resources	
CHighly qualified personnel CPrior experience working as team CLow level of personnel turnover	C Uneven experience in technical areas related to communal economy
Financial Resources	
CUSAID willing to continue supporting condo and PMM project on national level COther donors supportive of local NGOs	CLimited ability to be self-financing CUnfriendly Ukrainian tax laws CNo experience in Ukrainian accounting system/financial reporting

Technical Resources	
CFully equipped offices CAbility and experience producing training materials CFlexibility to diversify services to new clients on cost recoverable basis	C Clients used to receiving free services
Service Resources	
CFree training CHigh-quality seminars CCapability to conduct seminars in different oblasts of Ukraine CResponsiveness to different audiences	C Most experience in PMM and condos C Expectation of free training
Marketing	
CExperience working with different media for promotional purposes CExperience using seminars and training events for public relations	C No information available on clients= willingness to pay for services C Staff need training in land appraisal

Opportunities and Threats

Opportunities	Threats
Development of new services (including those that will be charged for) using the skills obtained through additional training	C Appearance of competitors C Need to be better known at senior levels of government
Flexibility of seminar programs from the point of view of new housing reform problems emerging	Disability of such clients as government entities to pay for services rendered, if organization starts charging for them
Increasing number of residents who want to improve their living conditions through new approaches	Increase in expenses in case the organization will have to pay rent for the office space
Increasing demand of local governments for assistance in developing new approaches to housing issues	C Significant increase in expenses (twice as much) to pay new salary taxes C Central government policy not always supportive
Cooperation with other organizations in order to obtain additional funding sources	Unstable political, legislative, and economic situation in the country

5 Meaningful Environment

These are the groups and individuals with whom the Institute will collaborate to fulfill its mission; they are partners with a supportive role to play.

- C **Cabinet of Ministers** Ć legislative basis for housing; the NGO needs to strengthen these ties at the highest levels in the interests of promoting reforms in housing and real estate, as well as NGO issues.
- C **Local Government** Ć local or regional authorities with whom the organization is in daily contact; they are clients with limited ability to pay for services.
- C **USAID** Ć helps in planning; provides donor support; shares interest in privatization

and government reform.

- C **PADCO** † willing to help create NGO; lays groundwork for new NGO, which will benefit from PADCO's excellent reputation.
- C **Donor Community** † international, bilateral organizations, including TACIS and the World Bank, willing to contract for NGO services and specialized skills and experience.
- C **Private Maintenance Firms** † profit-oriented organizations, which are interested in promoting market relationship in housing; possible clients.
- C **Residents** † people in need of housing reforms and assistance that the Institute can provide; they are clients with limited ability to pay for services.
- C **Mass Media** † newspapers and radio stations represent important channels for public relations and marketing.
- C **NGO Community** † partners with experience from which we can benefit; our interests overlap; groups like Counterpart can be source for training for us. On the other hand, our organization can be a source of training and technical assistance for groups like the U.S.-Ukraine Foundation.

6 Obstacles and Proposed Action

Obstacle	Consequences If Not Addressed	Action	Target Date
No NGO experience	Crisis in functioning of NGO	Identify the skills we need and means of training, emphasizing local resources	Jan.-June 1997
Unknown level of funding/budget available to support that NGO	Paralyzed NGO functioning	Pending decision by USAID Cultivate new donors and write proposals (World Bank, Soros, TACIS, Philip Orlik Institute)	Jan.-Feb. June-Sept. 1997
Organizational questions	Disability of NGO functioning	Consultation with USAID and PADCO	Jan.-Feb. 1997
No experience to generate income for service	Donor-dependent NGO	Initiate fees for service immediately to test market	June-Sept. 1997
Transition from PADCO to NGO operations, administration, and management systems	Confusion and ineffective organization jeopardize relations with donors	Executive director to provide leadership with support from PADCO	June-Sept. 1997
Lack of experience in Ukrainian bookkeeping	Problems with Taxation Bureau	Hire a bookkeeper familiar with Ukrainian bookkeeping system	June-Sept. 1997

National Housing and Real Estate Property Institute

Operational Plan

January 1997

Table of Contents

- 1 Management1**
- 2 NGO Registration2**
- 3 Facilities2**
- 4 Equipment2**
- 5 Financial Controls2**
- 6 Office Operations3**
- 7 Program Reporting3**
- 8 Training3**
- 9 Program Implementation4**
- 10 Fee Schedule4**

1 Management

This section of the Operational Plan describes the day-to-day functioning, operation, and management of the Institute.

The Institute will be based in Kiev with regional offices in Lviv, Kharkiv, and Odessa.

One of the outstanding strengths of the new organization is the key personnel who, over the past several years, have acquired the training and experience to effectively perform their jobs. The Director of the new organization is Mr. Alexander Boukhalov, who has three years of prior experience working with international NGOs in both program and management capacities. He will provide overall leadership and assume responsibility for program management, program and financial reporting, government relations, new business development, and fundraising. The managers of the regional offices will work closely with and report to him. All regional managers have been working with PADCO for several years in the areas of shelter reform, privatization, and local government capacitation and have been active participants in planning the formation of the new NGO.

With current levels of funding, the number of staff in each regional office is expected to remain the same. There are presently 14 Specialists with up to three-and-a-half years of experience working with local governments and forming condominium owners=associations and private maintenance management organizations. The Specialists=responsibilities include planning and conducting workshops and seminars; working with oblast and national officials to assist in the privatization process; conducting public education; and disseminating materials to facilitate roll-out of the condominium and PMM programs. Each has a job description that is the basis of an annual performance evaluation by the office manager. Each regional office will contract with universities and institutes for the services of additional trainers or specialists to carry out PMM training.

The Institute is expected to form a Board of Directors shortly after it is registered. For the remainder of the current contract, i.e., between January and September 1996, all offices will continue to report to PADCO/DC. It is envisioned that the Board will initially be comprised of 3-5 volunteers with an interest in furthering the NGO=s mission. They will be a mixture of prominent and well-connected persons drawn from the business community, the Ukrainian government, and local universities who will help with fundraising and approve the annual budget, while performing a program monitoring and oversight role. The Board members will bring additional professional and technical expertise to the Institute through their legal, financial, marketing, and other specialties. They will have input into the NGO=s long-range plan and policy direction. Board members will also be expected to conduct public relations for the NGO and actively participate in disseminating information about the organization=s accomplishments, activities, and capabilities.

2 NGO Registration

The Institute will be registered in the category of Acivil nongovernmental organization.@ Becoming an NGO will make the organization liable to pay between 80-90 percent in taxes for staff salaries, in addition to a levy on their capital assets. The latter tax may be avoided since the organization=s assets were purchased and are owned by USAID, which is exempt on the basis of its bilateral agreement with the Government of Ukraine.

As part of the registration process, the Institute will designate 10 persons as founders, including one foreign national. Brain Trust members have expressed interest in being founders. Legally they will have no obligations or rights, unless specified in the founding documents, which is not expected. Registration is expected to take a maximum of 60 days. The NGO=s application will be made no later than 1 April.

3 Facilities

The new organization will negotiate with municipality officials to continue using existing space, which is large enough to accommodate staff, in Kiev, Lviv, Odessa, and Kharkiv at no cost. It is likely, however, that it will be necessary to begin paying rent and perhaps seek other accommodations. The present facilities are centrally located, well-known to the public, and easily accessible to prospective clients. The premises have the necessary international telephone and fax lines and an e-mail capability, which will enable regional offices to communicate with each other and with prospective local and international donors concerning administrative, management, and fundraising issues.

4 Equipment

The Institute will also benefit from the continued use of basic furniture (desks, filing cabinets, tables) and equipment (computers, scanners, photocopiers, fax) purchased under the previous USAID contract with PADCO. By agreement with USAID, all equipment purchased under the PADCO contract will be transferred to the new NGO. In the event the authorities levy an asset tax on existing equipment, the Institute will seek to arrange a long-term lease with either PADCO or USAID. All offices have adequate security arrangements to protect their property.

5 Financial Controls

The Institute will hire an accountant who is familiar with the Ukrainian bookkeeping requirements by which NGOs have to abide. Where USAID funds are concerned, it will adapt the system of financial controls that has been developed by PADCO and that is familiar to each office. This includes guidelines and formats for bookkeeping, procurement, disbursement of funds, budget monitoring, and cash and bank reconciliation. Each office will prepare monthly financial statements reflecting income and expenditures. This information will be sent to Kiev by the fifth of every month, where it

will be reviewed and will provide the basis for preparing financial reports to donors.

Annual financial audits will be carried out by a local company. All funds will be maintained in an interest-bearing central foreign currency account in Kiev and will be disbursed to regional offices in accordance with an agreed-on schedule of payments and in accordance with their pattern of expenditure.

6 Office Operations

The organization will comply with local labor laws and report, as necessary, to the appropriate authorities in accordance with the requirements of local legislation and established procedures. Through its own legal counsel, the NGO will closely monitor changes that may occur in the area as a result of new government decrees.

Office operations will continue to follow policies and procedures already in place for staff timekeeping, in-country travel, travel advances, expense reimbursement, and per diem. Staff will sign new contracts with the new NGO.

Each office will maintain an inventory of equipment.

7 Program Reporting

Each Regional Office will prepare Activity Reports on a monthly, quarterly, and annual basis that monitor performance and track progress in achieving program objectives and deliverables. These will be forwarded to the Head Office in Kiev where General Activity Reports will be prepared for submission to USAID and other donors/sponsors, as necessary.

8 Training

The new NGO has identified several areas where its staff would benefit from specialized training.

C **NGO administration and management.** Training will ensure the smooth transition from and adaptation of the PADCO systems to that of an indigenous Ukrainian organization. Team building and communication skills will be especially valuable to ensure the efficient operation and coordination of staff and programs in four regional offices. The new NGO will benefit from assistance in drafting its charter and bylaws, which will engender continued discussion about organizational structure and the roles and responsibilities the regional offices. Counterpart has been suggested as a possible training resource for this purpose. The Lviv Regional Advisor may also provide some assistance in this area.

C **Fundraising and marketing NGO services.** The Institute gives top priority to cost recovery and funding diversification as a means of achieving program and institutional sustainability. In this connection, it intends to market its services and

technical capabilities to the broadest range of prospective clients and donors. Specifically, it is seeking assistance in the development of a market strategy and guidance in proposal writing. These are areas in which they look forward to working with the Alliance volunteer who will be assigned to the Institute for a period of three months.

- C **Real estate appraisal.** This is a new area of business development that the Institute wants to pursue. It is suggested that the four office directors attend a two-week seminar that is offered by the Association of Appraisers in Kiev. After successfully completing the course, students receive certification to perform appraisals. The cost per participant is 900 grivna. Ideally, staff would complete the course within the next three months.
- C **Ukrainian bookkeeping.** The Executive Director will be oriented to the fundamentals by the newly hired accountant who is specialized in this area. This will allow him to oversee periodic reports to the tax authorities. Likewise, the regional directors will have to gain a certain degree of familiarity to comply with the new Ukrainian accounting and bookkeeping requirements.

9 Program Implementation

With the proposed level of funding to support the existing staff, the Institute will continue to roll out the condominium and private maintenance programs, while pursuing new business opportunities, such as real estate appraisal. The following summarizes anticipated results for FY 98.

<u>Anticipated results per year</u>	<u>Nationwide Total</u>
PMM	
Units under P.M.	90,000
Contracts between private firms and cities	30
Municipalities implementing PMM program	15
Competitions conducted	15
Micro-districts transferred to private maintenance	30
City resolutions passed	26
Training/seminars conducted	190
COAs	
Associations registered	2,000
Associations in pipeline	1,000
City or oblast resolutions passed	34
Bureau or Housing Reform Office formed	34
Training/seminars	400

10 Fee Schedule

As soon as it is registered, the Institute will begin asking clients to pay for services that, until now, have been available for free. The potential clients are: oblast administrations, municipalities, oblast and city departments for housing (and municipal management), raion executive committees and zheks, associations of homeowners and housing cooperatives, residents, private maintenance firms interested in getting housing maintenance contracts, and utilities.

The following is a proposed schedule of fees the Institute can charge for its services.

<u>Types of service</u> <u>price</u>	<u>Price per person</u> <u>per piece (\$)</u>	<u>Total</u>
1. Presentation of the Condominium and Private Maintenance Programs 150		3
2. PMM Seminar for municipal officials 150	5	
3. Condo Seminar for municipal officials 150	5	
4. PMM Seminar for private firms 400	20	
5. Condo Seminar for residents 100		2
6. Training in the Regional office city on the creation of Condominium Associations with site visits and meetings with Association Management Boards 300	15	
7. Training in the Regional office city on the PMM program with site visits to private maintenance companies and meetings with their management and staff 300	15	
8. Dissemination of information and training materials:		
C Condo brochure for residents depends on demand	1*	
C Condo brochure for municipal officials depends on demand	1*	
C Guide on condo formation and functioning	2*	
C Set of legislative and normative documents on condo formation	1*	

package	C 1*	condo	registration
C PMM how-to manual		2*	
C Set of legislative and normative documents re: condo formation		1*	
9. Consulting package for inspection site visits consulting package for regional/city offices required		25*	as

* This price is the actual price of distribution and should be added to the actual cost of printing.

National Housing and Real Estate Property Institute

Financial Plan

January 1997

Table of Contents

1 Budget Narrative1

2 Funding Projections1

1 Budget Narrative

This section provides additional information about the budget schedules below, including a three-year budget summary and detailed budget for year two.

- C Budget horizon ¶ Year one covers the period 10-1-96 through 9-30-97, which is when the current USAID contract with PADCO expires. It is expected that the local NGO will be registered by June 1. Year two is the first full year of NGO funding and independent operation.
- C Staffing ¶ Current staffing levels have been retained in years two and three in the expectation of maintaining a program of similar scale to the one now being implemented. In the event income projections are not met, the Institute will review alternatives to reduce its costs in this area.
- C Salaries ¶ Salaries were calculated on the basis of 260 working days, which includes vacation, holidays, and sick leave, as required by the Ukrainian labor law.
- C New taxes ¶ A local NGO is required to pay between 85-90 percent of current salaries in taxes as soon as it is registered. Accordingly, the budget for years two and three is significantly higher than year one to include the following categories of taxes:
 - < personal income tax;
 - < Chernobyl;
 - < pension fund;
 - < employment fund;
 - < municipal; and
 - < road maintenance.
- C Office space ¶ When the NGO is registered and begins charging fees for its services, local governments now offering free office space may request payment or even invite the NGO to find space elsewhere. The line item for office space was calculated on the basis of \$20/sq.m./month.
- C Lviv costs ¶ The operational costs in Lviv were estimated using the average actual costs in the other three offices. It is assumed that two specialists working with the Vodokanal and Title Registration projects will join the NGO staff in October 1997.
- C Capital Assets ¶ No purchases are planned, as all offices are well-equipped.
- C Inflation ¶ a 5 percent inflation factor has been built in for years two and three.

2 Funding Projections

As noted above, cost recovery is a high priority of the Institute. Estimates for generating income from services are very tentative. Factors affecting income generation potential include residents= depressed income, low levels of funding available through local government, and uncertainty over how much to charge for such new services as real estate appraisal.

The new organization will seek to diversify its funding base as quickly as possible. Staff

will research the donor community, including foreign investors, international organizations, the ABig Six® auditing firms, and European aid sources, and prepare proposals that fit their mission and are consistent with donors=interests.

The following are preliminary income projections covering a three-year period.

Funding Source	10/96-9/97	10/97-9/98	10/98-9/99
USAID	480,000	600,000	400,000
EU Organizations		30,000	150,000
Bilateral (UN, World Bank)		45,000	100,000
Local Governments	5,000	10,000	15,000
Customers (Residents, PMM companies, local businesses, utilities, other NGOs)	5,000	28,000	92,000
Total	490,000	713,000	757,000

National Housing and Real Estate Property Institute

Contingency Plan

January 1997

Table of Contents

- 1 Organizational Structure1**
- 2 Budget and Income Projections1**
- 3 Institution Building2**
- 4 Leadership and Team Building4**
- 5 Implementation Schedule4**

The strategic, operational, and financial plans are viewed as working documents that the new NGO will refine, update, and change in accordance with changing circumstances. This part of the Business Plan describes and discusses key issues that have emerged in planning meetings with the consultant in December and January. Their inclusion here is meant to highlight them, while alerting the reader to the fact that discussion of these matters is still ongoing.

1 Organizational Structure

The NGO consultant has recommended that a Board of Directors be established and that the executive director be accountable to the Board. This is the model that NGOs in the former Soviet Union are being encouraged to follow by Counterpart and World Learning, who are providing training and technical assistance to help local NGOs move in this direction.

While members of the Brain Trust have tentatively agreed to this, the Kiev, Kharkiv, and Odessa office supervisors have also asked to be members of the Board. The fact that having employees on the Board represents a blatant conflict of interest and would perhaps deter external donors from supporting such a structurally unsound organization has not swayed Brain Trust members from persisting. The model they favor is one of collective decision-making, which enables them to be at the center of the decision-making process, like the Brain Trust currently functions. In discussions, they have expressed concern over turning the organization over to an untested Board whose members may not share their interests, commitment, and motivation to fulfill the NGO's mission and who may prove unable to meet the management and oversight expectations made of them. NGO Boards, they argue, are a new phenomenon in Ukraine and finding good members may not be so easy. Moreover, they anticipate Board members will expect payment for their services, if not a regular retainer fee, which will increase the NGO's operating costs.

The structural question described above must be quickly resolved because it is at the core of local registration and of being able to move forward with drafting bylaws, fundraising, and presenting the new organization to the NGO community, local government, and its clients. In the interests of team building, it is also advisable to definitively clarify the expectations of the office supervisors on such a fundamental issue in which they have a perceived stake. In this connection, it is recommended that within three weeks the executive director visit a sample of local NGOs to learn about their experience with boards. Information could be gathered about the role of the board, its size and composition, and options of remuneration. Data collected should be shared with Brain Trust members and incorporated into a proposal for structuring the new NGO.

2 Budget and Income Projections

The biggest change next year in the budget of the new NGO is the amount of taxes it

will be liable to pay. As soon as it is registered as a local organization, it will begin paying taxes to the authorities equivalent to 85-90 percent of employees' salaries. This is the cost of doing business in Ukraine and effectively doubles the cost of their payroll. For an organization of its size (three full- and part-time positions) that operates on a national level, this is a hefty sum amounting to approximately \$190,000 per year. Pending a change in Ukrainian tax law, which many in the diplomatic, business, and NGO communities are pressing for, there does not seem to be a way to avoid paying these substantial sums.

The staffing and budget proposed assumes that USAID, the primary donor, will want to continue rolling out both the condominium and PMM projects at the current or even higher levels of deliverables. In the likely event that full funding, i.e., \$713,385 from all sources, cannot be assured for the next year (FY 98), the new NGO will have to cut expenses in order to stay within its allocated budget from USAID, which at the moment is still not known. The most likely place to find these savings will be in staff costs, which account for 56 percent (\$211,385 in salaries, \$190,138 in payroll taxes) of the year two budget (\$713,385). The trade-off is that reductions in trained and experienced professional staff will also reduce implementation capabilities, which is one of the organization's strengths.

For reasons discussed above, identifying other donors to complement USAID funding is among the top priorities of the NGO. One prospect is TACIS, whose staff has been kept abreast of the formation of the new NGO, and whose staff are in the midst of developing their program strategy. Like several other donors, notably USAID, their support is contingent on the NGO's formal registration with Ukrainian authorities. Over the next three months, the new organization expects to benefit from the contacts and expertise of the recently arrived Alliance volunteer, who is a former U.S. ambassador. He can render valuable assistance in helping the executive director develop a fundraising work plan that includes a schedule for meeting prospective donors and partners and for developing a marketing campaign that promotes the NGO's program services and specialized capabilities. He may also assist with proposal writing as the need arises.

Other sources of income may come from consulting or receiving a fee for services, such as performing housing-related privatization training for the U.S.-Ukraine Foundation, working on a communal enterprise privatization feasibility study for the World Bank, or doing real estate and property appraisals for interested businesses. At this time, it is only possible to provide rough estimates of how much income may be derived from these activities. The Brain Trust agreed that the best way to find out more about the market and potential income in this area is for the NGO to start selling services and see what the response is. In the meantime, income projects in this area are very soft and unreliable.

One source of income that the NGO expects to be modest until the national economy

revives is local government and apartment residents. Although the focus of the PMM and condominium programs, both are considered Apoor customers@ in that they have little or no money available to spend expect on their basic needs. For the foreseeable future, it is generally understood and accepted that services to this category of customers may have to be subsidized. Accordingly, the budget plan anticipates only modest cost recovery here.

3 Institution Building

The present year is one of transition from a PADCO- to a locally managed NGO project. The new organization will surely benefit from PADCO-s positive reputation in the country. The new organization has the advantage of starting up with a cadre of trained and experienced staff and a fully equipped office, which are tremendous assets for a new NGO. At the same time, it will have to create a new Abusiness@ image reflecting an emphasis on cost recovery and, whenever possible, payment for services. Brain Trust members have expressed concern about local governments- reaction to this change, since they are used to getting services, training, and materials for free. They also worry that efforts to recover costs may draw unwanted attention and intrusive questions from the tax authorities. Nevertheless, they are committed to implementing the changes that a new NGO implies.

An immediate institution building priority for the new organization is preparing bylaws and a policy and procedures manual. The bylaws, which do not have to be lengthy, are an extension and elaboration of whatever forms that the Ukrainian government requires for its formal registration purposes. The bylaws proposed here are different in that they serve the NGO-s interests by describing and formally adapting the organization-s mission, values, and services. It will include a section on organizational structure that outlines the roles and responsibilities of the Board, the executive director, and regional offices. It is expected that the preparation of the bylaws will engender further discussion among Brain Trust members, thereby helping build a shared understanding and commitment around key issues, such as the role of the Board. The consultant recommends that the bylaws be drafted with the assistance of the Alliance volunteer by the end of March.

The policy and procedures manual will describe how the new Ukrainian organization will operate on a day-to-day basis. Such a manual is necessary for any NGO, but especially an NGO with four regional offices. Besides facilitating management and administrative functions, the manual signals to donors, business clients, and partners that the NGO is well-managed. The current PADCO manual may serve as a point of departure for writing revised guidelines that reflect the specific needs of a Ukrainian organization. There will be sections dealing with personnel, finance and accounting, procurement, and general office operations, e.g., mail registry, time sheets, phone/fax log. Program planning, reporting, and budget systems will also be described. Job descriptions would be included that reflect updated task assignments as well. The

consultant recommends that the policy and procedures manual be completed by the time of registration, i.e., June 1, 1997. Again, prospective donors can be expected to favorably view such a manual.

A potentially contentious policy issue that deserves further discussion relates to whether and how individual regional offices will divide up the local income they receive. Brain Trust members talked about keeping 80 percent, while forwarding 20 percent to a general fund in Kiev. This latter amount would be periodically distributed according to agreed-on criteria to support the costs of other offices. While this may be a good idea in principle, the practical mechanisms and criteria for distribution have to be worked out, as well as final consensus on the desirability of such a policy and pre-established guidelines for future donors.

4 Leadership and Team Building

The transition from a PADCO office to a local NGO represents a major and significant organizational transformation. The transformation will touch every component of the office and affect all staff. A key part of making a smooth and successful transformation is getting the new team (made up of the executive director and regional directors) up and running and functioning as a cohesive unit. Given the planning role assigned to the Brain Trust over the past several months and its recently expressed interest in continuing in this role in some form, a team approach to running the new NGO is both desirable and appropriate. This is intended to build on the organization's strengths (its staff), while retaining the authority of the executive director. In this connection, it is recommended that the executive director take an early and active role in team building. Specifically, this means setting aside time with the Brain Trust to reinforce the NGO's purpose and mandate; reaching agreement on roles and responsibilities; agreeing on internal team operating guidelines; establishing performance goals and developing a team plan for reaching these goals; and working out solutions to common or recurring problems and obstacles related to program implementation or internal management issues.

Functioning as an effective team whose members hold themselves accountable for success will be challenging since members of the staff have spent their careers working in systems with a traditional and hierarchical culture. In support of the process of leadership development and team building, the consultant recommends that the executive director and Brain Trust receive training in the following areas:

- C basic communication skills for team members, including active listening, facilitation skills, and giving/receiving feedback;
- C approaches to team problems-solving and decision-making; and
- C creating mutually agreed-on performance goals between the executive director and regional offices; these would cover resource requirements, expected results, delegation of authority, and Kiev office involvement in the regional teams.

All training can be performed in-country. It would be appropriate to initiate the training, which will require several sessions, as soon as possible. This will enable the organization to begin practicing and benefiting from the newly acquired skills right away. Sessions may also be scheduled to coincide with local registration, which will represent a significant and exciting benchmark in the NGO's formation. One possible local source for this training is Counterpart Creative Center in Kiev, which has a cadre of trainers available to conduct seminars and workshops in Russia and Ukraine. Because this training is highly relevant to the viability and sustainability of the new NGO, it deserves serious consideration.

5 Implementation Schedule

The following summarizes the major activities described in this section of the plan, key participants, and target completion dates. It focuses on the next six months, which are critical to successfully launching the new NGO and preparing it to begin operating as a viable Ukrainian organization.

Activity/Participant	Target Date
Executive director, with input from lawyer and Brain Trust, makes final recommendations on Board issues	March 10
Executive director, with input from Brain Trust, revises proposed budget	Pending notification by USAID
Executive director, in collaboration with Alliance volunteer, develops and implements fundraising plan	February 3-April 30
Executive director, with assistance from Alliance volunteer, drafts NGO bylaws	March 31
Staff lawyer presents NGO registration papers to authorities	March 31
Training in real estate appraisal for one specialist	May 1
Executive director prepares NGO policy and procedures manual	June 1
NGO registered with Ukrainian authorities	June 1
Leadership training and team building exercise for executive director and field supervisors, conducted perhaps by Counterpart	Beginning May 1
Brain Trust planning and coordination meetings, chaired by executive director	Every 4-6 weeks